ATLANTIC PROVINCES ECONOMIC COUNCIL | CONSEIL ÉCONOMIQUE DES PROVINCES DE L'ATLANTIQUE

Commentary

Federal Budget 2014: Highlights for Atlantic Canada

Budget 2014 moves the federal government ever closer to a balanced budget. The government is now projecting a deficit of $2.9 billion in 2014/2015, after including a $3 billion contingency fund, which represents a $2.6 billion improvement from the Fall 2013 Economic Update. A surplus of $6.4 billion (0.3% of nominal GDP) is forecast for 2015/2016.

As expected there were few new or big-ticket measures in the budget. There were a number of announcements relating to training and innovation. The budget included various proposed measures to help consumers (such as new legislation to cap domestic wireless roaming fees and to address cross-border price gaps). The federal government also wants to bring together provincial ministers to discuss how to reduce barriers to internal trade in Canada and is looking to develop an Internal Trade Barriers Index to help prioritize areas for reform.

Training and Employment

Budget 2014 announced that it would proceed with the creation of the Canada Job Grant on April 1, to provide funding for short-term training provided by eligible training organizations for unemployed or underemployed Canadians. Employers will be required to contribute one-third of the total cost of training although small businesses may be able to include wages as part of their employer contribution. The federal government will provide up to $10,000 per person. While negotiations continue, the provinces have so far refused to participate in the program, which was announced in last year's budget, as it would reduce their funding for existing training and employment programs. The new grant will be provided through federal Service Canada centres if the government cannot secure agreement with a particular province.

There will be an expansion of the Canada Student Loans Program through the establishment of the Canada Apprentice Loan. Apprentices enrolled in a Red Seal trade apprenticeship can apply for up to $4,000 in interest-free loans to support their technical training. About 26,000 apprentices per year are expected to apply for over $100 million in loans. Atlantic Canada had about 5.3% of the registered Red Seal apprentices in Canada in 2011.

The government announced it will refocus its $330 million in annual youth programming provided through its Youth Employment Strategy (YES). The budget dedicates $40 million over two years for up to 3,000 full-time internship positions for post-secondary graduates in high-demand fields to help young graduates gain the workplace experience they need. In Nova Scotia for example, the unemployment rate for 15-24 year olds with a bachelor degree in 2013 was 11%, close to three times the unemployment rate for those aged 25 years and over with a bachelor degree. Three-quarters of the refocused funding will be provided through the National Research Council's Industrial Research Assistance Program to support internships in small businesses undertaking technical research and development projects. In addition, $15 million annually in current YES funding will be reallocated to support up to 1,000 full-time internships for recent post-secondary graduates in small firms.

Budget 2014 will renew the Targeted Initiative for Older Workers for a further three years, at a cost of $25 million per year. This cost-shared initiative assists unemployed older workers (aged 55-64 years) in smaller, vulnerable communities by supporting their reintegration into the workforce. As of 2013, this program had supported over 1,800 workers in Nova Scotia and New Brunswick.

The federal government plans to launch a Job Matching Service to connect registered job seekers with employers in their local area. The government also announced that it plans to launch its new Expression of Interest system for new immigrants in January 2015. Under this system, provinces and employers will be able to search a pool of registered candidates for immigration through existing economic immigration programs.

The government will also continue with reforms to the Temporary Foreign Worker Program including limiting the use of the program in high-unemployment regions, which could impact rural fish processing plants in the region. There were about 960 temporary foreign workers in fish plants in Atlantic Canada in December 2012.

The government announced it will end the federal Immigrant Investor and Entrepreneur programs. There were almost 3,000 principal applicant Investors and 200 entrepreneurs who became permanent residents in Canada in 2011. There were an estimated 20 principal applicant investors who landed in Nova Scotia that year. The government indicated it will introduce a pilot Immigrant Venture Capital Fund project to test a new approach to business immigration.

Innovation

The government announced it will refocus the innovation programs provided by the Atlantic Canada Opportunities Agency (ACOA), such as the Atlantic Innovation Fund and the Business Development Program, to ensure they are responsive to the needs of business and effectively support the commercialization of new products and services leading to stronger economic

growth. ACOA is expected to provide $450 million over the next five years to support innovation and commercialization.

The federal government will provide $1.5 billion in federal funding for the new Canada First Research Excellence Fund over the next decade to improve the ability of Canadian post-secondary institutions to compete with the best in the world for talent and breakthrough discoveries to create economic advantages for Canada. Initial funding will start off at $50 million in 2015/2016 increasing to $200 million by 2018/2019. Grants awarded on a peer-reviewed basis. In 2010/2011, Atlantic Canada received 6.1% of the scholarships and grants awarded by the Natural Sciences and Engineering Research Council of Canada.

The government is providing an additional $40 million over four years to the Canada Accelerator and Incubator Program (CAIP), starting in 2015/2016. This increases the total funding for this program, which was launched last September, to $100 million. The purpose of CAIP is to establish a critical mass of accelerator and incubator organizations across Canada that will help high-potential companies and entrepreneurs develop their businesses through mentoring and other resources.

Industry Initiatives

The duty on imported mobile offshore drilling units will permanently be eliminated. The duty, which was a disincentive to Atlantic and Artic offshore exploration, will lower business costs by $13 million. The government will provide $18 million over four years for early intervention to prevent the spread of spruce budworm in Atlantic Canada and Quebec. The National Energy Board will be given $28 million over two years, cost recovered from industry, to review project applications within legislated timelines, including TransCanada Pipelines' Energy East Pipeline Project which will terminate in Saint John, New Brunswick. The 15% Mineral Exploration Tax Credit has been extended for an additional year which will have a $45 million impact nationally.

Infrastructure

There were only a few new infrastructure related announcements in the budget that will have an impact on Atlantic Canada. The budget provides $58 million over two years to support the continued operation of ferries between: Nova Scotia and New Brunswick; Prince Edward Island and Nova Scotia; and between the Magdalen Islands and Prince Edward Island. About $392 million has been set aside over five years to make improvements to highways, bridges and dams located in Canada's national parks. Atlantic Canada's national parks account for about 1.4% of the national park system area.

Budget 2014 plans to provide $305 million over five years to provide broadband access (at 5 megabits/second) to an additional 280,000 rural households in the country. This may have a greater impact in Newfoundland and Labrador (which currently has 96% broadband coverage) than the Maritime provinces (which have 99% coverage). The next challenge will be to improve

broadband speeds in Atlantic Canada. The broadband availability at the higher speeds (25Mbs) is much lower in this region than in the rest of the country.

The $53 billion in infrastructure funding over 10 years announced in Budget 2013 under the Building Canada Plan will begin this coming fiscal year. Municipalities in Canada will receive $2.9 billion in 2014/2015 (including $2 billion from the Gas Tax Fund) which grows to $3.6 billion by 2023/2024. Atlantic municipalities currently receive about $147 million annually from the Gas Tax Fund.

Fiscal Outlook

A slightly weaker economic outlook will decrease budgetary revenues by $2.4 billion over the next five fiscal years versus the Fall 2013 Economic Update. Nominal GDP is forecast to grow 3.9% in 2014 versus 4.2% in the Fall Economic Update. Tax measures contained in Budget 2014 will also boost revenues over the medium-term, including an increase in the excise tax on tobacco products and efforts to strengthen tax compliance.

The federal government has not increased the excise tax on cigarettes since 2002, but Budget 2014 will adjust the cigarette and associated tobacco products excise tax rates for inflation since 2002 and index these tax rates to inflation going forward by adjusting the tobacco tax rates every five years, starting on December 1, 2019. This will raise $675 million in additional federal excise taxes on tobacco products in 2014/2015, including an estimated $56 million in Atlantic Canada.

Program spending over the next five fiscal years is $10.2 billion lower in Budget 2014 versus the Fall Economic Update, largely due to lower projected direct program expenses. In addition, a lower inflation forecast reduces the cost of benefits that are indexed to inflation. Operating expenses will remain frozen for another two years, saving $550 million in 2014/2015. The federal government is also moving $3.1 billion in National Defence funding for major capital procurements from the 2013-14 to 2016-17 period to future years, which could impact Atlantic defence suppliers. It will also implement a new Defence Procurement Strategy.

Some of the reductions in direct program expenses will be the result of planned job reductions announced in Budget 2012. Budget 2012 committed to reduce federal employment by 19,200 jobs or 4.8% of federal employment nationally over three years. According to the Public Service Alliance of Canada, as of February 5, 2014, 22,800 federal civil servants have received workforce adjustment notices saying they could lose their jobs, including 2,542 federal workers in Atlantic Canada or 11.1% of the notices issued in Canada.